

Audit reporting: national standards of Uzbekistan and international practice

Informes de auditoría: normas nacionales de Uzbekistán y práctica internacional

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ABSTRACT

This article is devoted to identifying problems of insufficient disclosure in standards of various types of audit reports, depending on the size of errors in the financial statements of a client, as well as in his ability to carry out his activities in the foreseeable future. In accordance with international standards of auditing and putting into practice the application of international standards if the standards do not specify all possible modifications of audit reports.

Keywords: Uzbekistan, National Standards on Auditing (NSA), International Standards on Auditing (ISA), audit report

RESUMEN

Este artículo está dedicado a identificar problemas de divulgación insuficiente en los estándares de varios tipos de informes de auditoría, dependiendo del tamaño de los errores en los estados financieros de un cliente, así como en su capacidad para llevar a cabo sus actividades en el futuro previsible. De acuerdo con las normas internacionales de auditoría y poner en práctica la aplicación de normas internacionales si las normas no especifican todas las modificaciones posibles de los informes de auditoría.

Palabras clave: Uzbekistán, Normas nacionales de auditoría (NSA), Normas internacionales de auditoría (ISA), informe de auditoría

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1. Introduction

In Uzbekistan, auditing activities are carried out in accordance with the Law of the Republic of Uzbekistan “On Auditing” (second edition dated May 26, 2000), Decrees of the President of the Republic of Uzbekistan and the Cabinet of Ministers of the Republic of Uzbekistan, National Standards of Auditing (NSA), and also various provisions, instructions and guidelines.

In the period 1992 - 2010, NSA was used. In accordance with the Decree of the President of the Republic of Karelia on 11/26/2010 No. PP-1438 and in accordance with Article 2-2 of the Law of the Republic of Uzbekistan “On Auditing”, audit organizations may apply IAS when conducting an audit in accordance with an agreement on providing audit services. Since 2016, ISAs are mandatory for use in auditing joint-stock companies.

2. Materials and Methods

The audit of the financial statements ends with the issuance of an audit report, the procedure for compiling and the types of which are regulated by the Law of the Republic of Uzbekistan “On Auditing” and the National Standard of Auditing (NAS No. 70 “Audit Report and Audit Report on Financial Reporting”. The first edition of NAS 70 was approved on 10.03.2001 and was valid until 01.12.2016. After this date, the new version of NAS 70 began to operate. However, both the old and new versions of the NAS 70 have significant differences from international standards. Since the IAS is used in the audit of joint-stock companies, which constitute about 30% of the audit volume, the remaining 70% of the entities are audited by NAS. At the same time, the audit reports on NAS are not trusted by both national and foreign investors because of the differences between NAS and IAS, mainly because there are no guarantees that the entity being audited will be able to carry out activities in the foreseeable future.

3. Discussion

NAS No. 70 “Audit Report and Audit Report on Financial Statements” was developed in accordance with International Standard on Auditing (IAS) 700 “Audit Report (Conclusion)”, entered into force on March 20, 2001 and was revised on December 1, 2016, then as IAS 700 was completely revised in 2006 and 2009. In addition, in 2006 - 2009. New IAS 705 «the Report on modification (conclusion) of the independent auditor» and IAS 706 «Mandatory and independent auditors requiring attention, in the report (conclusion) of the independent auditor» have been approved.

In 2016, IAS 701 “Informing about key audit issues in the audit report” was adopted. In addition to these standards, the issuance of audit reports is a very important role played by IAS 570 “The applicability of the assumption of the continuity of the organization.” Consider our comparative analysis of the differences between NAS and IAS from the point of view of audit opinions / conclusions. In 2016, IAS 701 “Informing about key audit issues in the audit report” was adopted. In addition to these standards, the issuance of audit reports is a very important role played by IAS 570 “The applicability of the assumption of the continuity of the organization.” Consider our comparative analysis of the differences between NAS and IAS from the point of view of audit opinions / conclusions.

4. Result

If the auditor believes that the identified factors cause significant doubts about the subject’s ability to continue uninterrupted operations, he must perform additional procedures:

- a request from the management of the entity about its plans for future actions, including the liquidation of assets, loans or debt restructuring, reduction or postponement of expenses, increase in equity, etc.;
- analysis of the availability of additional information on possible events after the evaluation period made by the management of the entity, and obtaining sufficient audit evidence that the implementation of management plans of the entity is feasible and will improve the situation;
- analysis and discussion with the management of the subject of forecasts of cash flows, profits, etc. ;
- analysis and discussion with the management of the subject of the latest available interim financial statements;
- analysis of the terms of credit agreements and debt obligations and existing violations on them;
- analysis of the contents of the minutes of meetings of shareholders, founders, administration and important committees to identify financial difficulties;
- survey of the management and legal service of the subject regarding the existence or contemplated

lawsuits and complaints and the adequacy of the management's assessments of the subject of their possible consequences;

- analysis of the existence and legality of the enforcement of agreements on the financing of the entity by related parties and third parties, as well as an assessment of the ability of these persons to provide additional funds;
- analysis of the subject's plans for outstanding customer orders;
- review of events after the reporting date, which may adversely affect the subject's ability to continue uninterrupted activities.

As with IAS 570, ISA 57 stipulates that the above list of features is not exhaustive. On the other hand, the presence of one or several characteristics of the subject does not necessarily mean a significant uncertainty regarding the assumption of the continuity of its activities.

The auditor analyzes information relating to the same period that was used by management during the assessment.

If this period was less than 12 months after the balance sheet date, then the auditor should ask the client to conduct an assessment for the established period, and also make a request for events or conditions of interest beyond the period covered by the management's assessment. In addition, the auditor has the right to ask the client to evaluate the potential significance of such events to determine the appropriateness of the continuity assumption.

Based on the evidence obtained, the auditor should determine whether there is an uncertainty requiring clear disclosure of information about it and its consequences in the financial statements. Uncertainty refers to a situation, the result of which depends on future actions or events that are beyond the direct control of the entity, but may affect the financial statements (for example, a court decision on a lawsuit brought by a client, the satisfaction of which will require significant expenses).

If the assumption under investigation is appropriate, but there is the above uncertainty, then the auditor should verify that the necessary information about it is disclosed in the financial statements.

If this requirement is met, the auditor expresses a positive opinion with an explanatory paragraph indicating the presence of uncertainty and containing a reference to the relevant notes to the statements.

If the required information has not been fully disclosed in the financial statements, the auditor should express a negative opinion, citing the presence of significant uncertainty.

If the auditor came to the conclusion about the inappropriateness of the assumption about the continuity of the activity of the enterprise being inspected, then he should express a negative opinion.

Independent assessment of the continuity assumption is not the responsibility and responsibility of the auditor.

If the management of the entity, at the request of the auditor, has not made its assessment or does not wish to extend the period of its assessment to a minimum, the auditor may consider this fact as a limitation on the scope of the audit and modify the audit report accordingly.

However, if, despite the aforementioned lack of analysis by the management of the entity, the auditor, when performing other procedures (not connected with the analysis of the evaluation of the management of the entity), has received reasonable grounds to believe that the entity is able to continue continuous activity, he does not use his right to modify the audit report based on a limited audit scope.

The auditor should take into account that the significance of negative factors may be mitigated by favorable factors. For example, the inability to repay payables in a timely manner can be compensated for by the action of the management of the entity in ensuring cash flow from other sources, and the loss of the main supplier is compensated by the appearance of an alternative source of supply.

Studying the foreign practice of auditing allows us to conclude that the requirements of IAS 570 "Assumption of business continuity" are very often ignored even by the largest audit companies, which causes financial scandals. Thus, in January 2002, more than 400 employees and former employees of Enron sued several company executives and the auditing firm Arthur Andersen, demanding the return of the funds of pension funds lost as a result of the bankruptcy of the company. The lawsuit stated that the company's management offered the staff to buy the company's shares without explaining the financial difficulties that Enron was going through. The above audit firm

provided consulting and auditing services to the company. The result of the scandal was the division of the business of the “Big Five” firms in certain areas: consulting services and audits.

Auditors who will not take the measures described in NAS 57 should be wary of litigation with affected users of the information contained in the financial statements and the audit report. When auditing the financial statements of organizations and public sector institutions, the question of the appropriateness of using the business continuity assumption usually does not arise, but in some cases (termination of funding of the audited entity, etc.), the auditor may receive useful recommendations from the NAS 57. In the light of new requirements for further improving the activities of audit organizations and increasing their responsibility for the quality of services provided, the introduction of the NAS 57 “Applicability of the assumption of business continuity” is necessary, timely and an indispensable tool for increasing the accountability of audit organizations to users of financial statements.

The presence in international practice of opinion without reservation, opinion without reservation with an explanatory paragraph and opinion with reservations is an indicator of the auditor’s responsibility, as it gives him the opportunity to warn users of possible consequences due to the presence of uncertainties in the subject’s future activities or indicate existing limitations on the scope of work or disagreement on accounting policies.

5. Conclusion

Thus, in order to improve the quality of audit services, to achieve more excellent reliability of audit reports and to attract the confidence of potential investors to domestic audit practice, NSA 70 is proposed to be brought into line with IAS 700,701,705 and 706. And also approve the proposed NSA 57 “Corresponding to MCA 570” Applicability of an assumption of continuity of activity of the organization “.

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